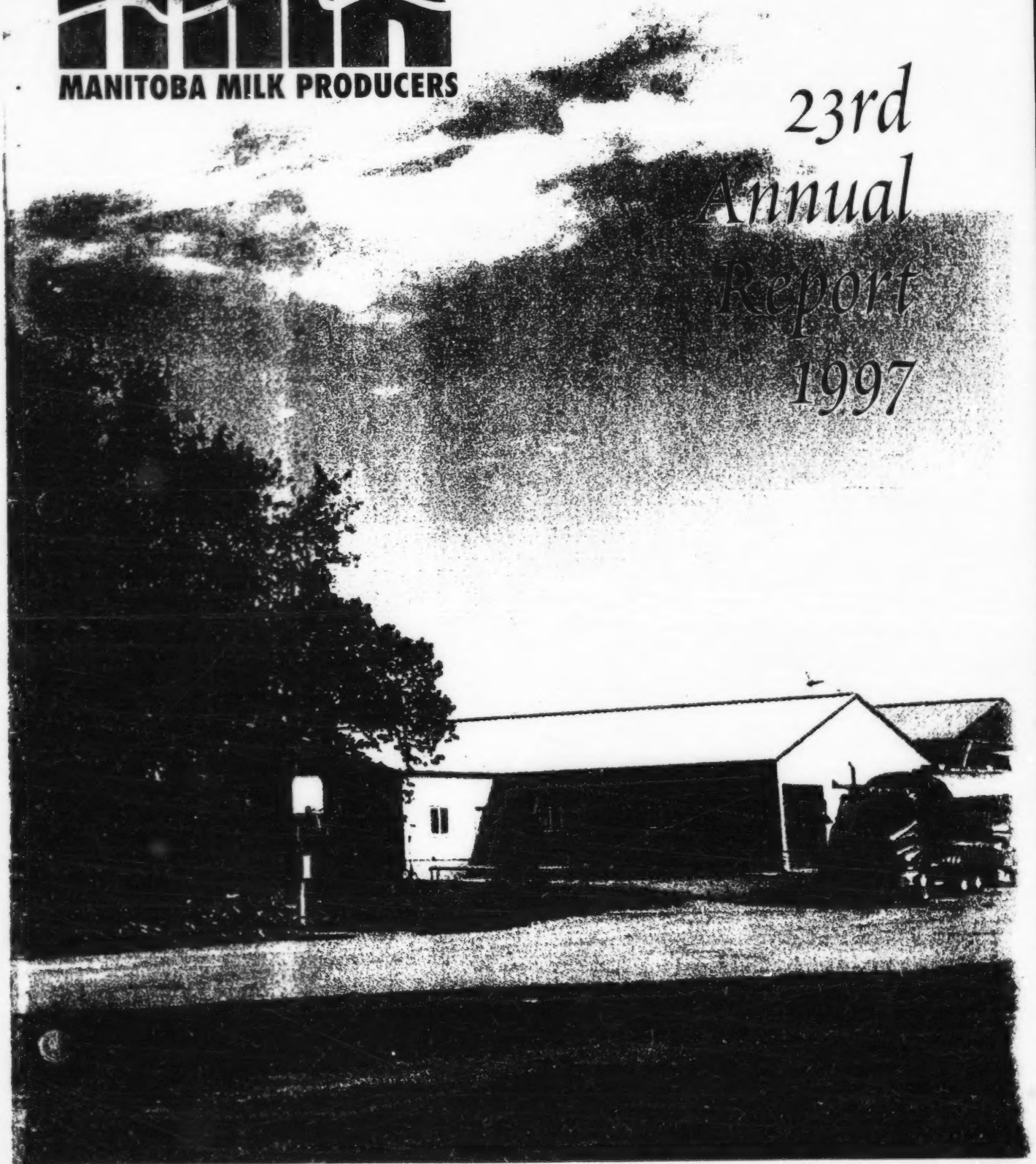
MANITOBA MILK PRODUCERS

23rd Annual Report 1997



BOARD MEMBERS

front row (l to r):
Craig Finnie, Executive Member (District 3)
Hugh Jameson (District 2)
Bud McKague (District 1)

back row (l to r):
Jim Wade, General Manager
David Wiens (District 9)
Ray Pelletier (District 8)
Ken Leppky, Vice Chairman (District 7)
Neil Van Ryssel, Chairman (District 6)
Wm. Swan (District 5)
Maurice Delichte (District 4)

TABLE OF CONTENTS

Chairman's Report	1
Report from the Board	2
District Elections	2
Directors Activity	2
District Milk Committees	2
Spring District Meetings	2
Standing Committees	2
Related Organizations	2
Web Site	2
Industrial Price Negotiations	3 - 5
Fluid Milk Price	3
1996/97 Net Revenue Increase	3
Changes for 1996/97 Dairy Year	4
Milk Production	4
1996 Skim Off	5
Milk Marketing to Processors	5
Monthly Pool Summary	6
Daily Quota Summary	7 - 8
1996/97 Dairy Year	7
1997/98 Dairy Year	7
Cream Quota Summary	7
Quota Exchange Summary	8
Summary of Quota Movement	8
Summary of Quota Transfers	8
Milk Quality	9
Milk Quality Premium Program	9
Quality Group	9
Product Marketing	10 - 13
Fluid Milk	10 - 12
Cream	13
School Milk Program	13
Logo Marketing	14
Nutrition Education	14
Transportation	15
Financial Statement	16 - 26

CHAIRMAN'S REPORT

By far the biggest highlights of the 1996/97 year were the start of the Western Milk Pool in March 1997 and Canada's winning the NAFTA panel challenge in December 1996. We must commend the P4 partners for their hard work and judgment in bringing the pool together. In our market there are no more inter-provincial barriers to the movement of all dairy products. This is the biggest reason that Manitoba Milk Producers worked so hard to make the P4 happen. It was an absolute must that the P4 happen to preserve Manitoba's market share and to preserve the integrity of Manitoba producers' incomes.

There were growing pains in the P6 and the P4 that, with a lot of intense work, were resolved to most provinces satisfaction.

The willingness of all partners in the pools to seek workable solutions to the inevitable growing pains was tested several times during the year and probably will be in the future. More and more the resolution of problems has to be worked out at an interprovincial table.

Canada's new system of pooling has been designed to use the new World Trade Organization tools. The system of pooling has replaced the old levy system. Milk prices received by producers now reflect the market activity in the month and the season. We have all seen, in our monthly milk cheques, large variations in income due to market fluctuations. This is something new and it is going to be an ongoing feature of our new Canadian structure. Fall and early winter markets will generate higher income and spring and summer markets will return more exports and lower producer prices.

On December 3, 1996 the NAFTA panel released its unanimous decision in favour of Canada's legal application of tariffs. This decision has brought a measure of comfort to the Canadian dairy industry. At the same time the U.S. processors, who do not like losing, have started another challenge through the U.S. Trade Representative. We expect and want this new challenge to go to a W.T.O. panel to settle this issue.

Record high production in the summer of 1997 yielded some of the biggest challenges to our milk direction and transportation system. Four of the six industrial milk plants refused milk other than what they needed for a five day week processing, which meant we were forced to market milk outside the province in June and July. Plant capacity was not the problem. A few processors gave up the milk to other provinces for value added processing and created higher hauling costs for Manitoba milk producers. Those plants that refused milk in the summer will be remembered when the lower milk months come this year.

Milk quality improvement has been a large preoccupation for the directors and several staff. A new premium payment for highest quality milk was instituted in January 1997. The results were impressive and the program will continue. In 1996/97, chronic milk quality problem herds were targeted for improvement with many deciding to improve. Some either sold their quota or their milk marketing privileges were discontinued.

The directors rely heavily on the nine District Milk Committees as their advisors on many policy issues. This year is no different. A special thank you must be extended to the 81 milk producers who give 6 or 7 days of their time to make sure the policies of their organization reflect what the grass roots of Manitoba Milk Producers want and see as important.

We work every day with 18 transporters serving all Manitoba milk producers. I want to thank all of them for their efforts out there on the road every day and also, thank their representatives for their cooperation in the way they have approached the rate formula revisions in the last two years.

We want to thank the Beatrice Foods Inc., industrial milk plants, for the exceptional work they did to run 24 hours a day in the summer to help with the unexpected milk flow and redirection from the fluid plants.

Thanks also to our great staff. They work very hard on our behalf with dedication and pride.

Neil Van Ryssel
Chairman

REPORT FROM THE BOARD

District Elections

The Administration By-law stipulates a Board members' term of office is for three years. In the normal rotation, in the fall of 1996 elections were called in Districts No. 1, 4 and 7. One candidate was nominated in each district and R.H. (Bud) McKague, M.O. Delichte and Kenneth P. Leppky were elected by acclamation.

Through district changes in the summer of 1996 the boundaries of Districts No. 7 and 9 were altered. A bi-election was called in District No. 9 and David Wiens was elected to fill the 2 year term left in District No. 9. Kenneth P. Leppky was elected in the newly described District No. 7.

In the fall of 1997 regular elections were called in Districts No. 2, 5 and 8.

Directors Activity

During 1996/97 the Board of Directors met 19 times for a total of 33 days. The directors also held one telephone conference meeting.

The total number of days the nine directors spent on Manitoba Milk Producers business was 886 days or an average of 98.4 days per director.

Directors are involved in regular Board of Directors meetings, committee work, affiliated organizations, conferences and seminars.

District Milk Committees

Manitoba Milk Producers is a dairy farmer organization and is directed by them. Nine district milk committees, each consisting of nine elected milk producers, act as the Board members advisers on policy development.

In 1996/97 the committees met three or four times in the district, once at the March Forum and at the Annual Meeting. The March Forum, held in Brandon on March 4 and 5, 1997, developed several new policy initiatives. The most significant is the deductions for marketing are now calculated on kilograms of butterfat marketed. The forum also heard a presentation from Manitoba Environment concerning the amendments to the Livestock Waste Management Regulations. Neil Van Ryssel presented an overview of the New Zealand dairy industry using a video and his own experience from a February '97 tour of New Zealand focussing on bulk milk hauling and processing. Producers attending the Forum expressed concerns about minimum quota holding and transfer assessment and directed the Manitoba Milk Producers to carry these issues to the membership during the spring district meetings for discussion and decision.

Spring District Meetings

Manitoba Milk Producers held eleven meetings in all districts in April 1997. These meetings provided producers with information on current issues such as inter-provincial pooling and advice to the members of the Board of Directors on such topics as minimum quota holding and the method of financing all Board functions.

As a result of these meetings, discussions, and decisions, Manitoba Milk Producers proposed regulatory changes to Manitoba Natural Products Marketing Council to reduce minimum Daily Quota holding to 1 kg of Butterfat per day and to implement a new Milk Operating Levy in dollars per kilogram of butterfat marketed. These new items were approved by council and became effective August 1, 1997.

Standing Committees

The Board of Directors established six committees in 1997, whose purpose was to provide specialized attention to matters affecting milk producers. The 1997 committees were Executive, Environment, Finance, Product Promotion, Transportation and Hazard Analysis Critical Control Point. A complete list of committee membership can be found on the inside back cover.

Related Organizations

Members are also active in related provincial and national organizations. In 1996/97 Manitoba Milk Producers was active in Agriculture in the Classroom, Canadian Milk Supply Management Committee, Dairy Farmers of Canada, Keystone Agricultural Producers, Manitoba Farm Animal Council and Manitoba Milk Recording Corporation.

Interprovincial pooling occupied two of the Executive Committee on an ongoing basis, involving 21 days of meetings. Almost all of these meetings were held in other provinces.

Manitoba Milk Producers Web Site

Manitoba Milk Producers initiated its own web site on September 1, 1996. We are proud to be an active participant in the dairy sector with one important part of our work being the education of producers, dairy industry partners, and the general public. We can now offer an easy and cost-effective way to forward a wide variety of current information to people in Manitoba and across the world.

Information on our Web Site is regularly updated, and is targeted for use by producers, processors, and the provincial and national organizations with direct or indirect links to the Manitoba and Canadian dairy industry. We have kept the information needs of the general public in mind, as well as those in the fields of education and research.

Topics such as Manitoba Milk Producers' history and information, feeding and breeding practises, milking system management, quality issues, recipes, nutrition issues, pool information are included on the web site.

Our address is http://www.milk.mb.ca

INDUSTRIAL PRICE NEGOTIATIONS

On August 1, 1996, the Canadian Dairy Commission announced an increase in the COP for industrial milk of $2.16/hL. This increase consisted of $1.00/hL due to increased costs of milk production and $1.16/hL for subsidy recovery. This resulted in an increase in the support price of skim milk powder from $3.931 to $4.203 per kilogram. The butter support price remained unchanged at $5.324 per kilogram. The processor margin increased by $0.15/hL to $8.12/hL from $7.97/hL.

A charge of $0.12 per hectolitre was included in the target price to cover costs associated with the normal stocks of butter held by the Commission. The $0.12 per hectolitre charge ensures domestic demand is met by holding sufficient butter stocks and to cover administration costs related to the Commission's domestic marketing activities.

August 1, 1996, the subsidy rate paid directly to producers was reduced to $1.055 from $1.283 per kilogram of butterfat ($4.62/hL to $3.80/hL). This decrease was offset by an increase in the support price for skim milk powder.

In negotiations with Manitoba processors, all classes of industrial milk were increased by the full $2.16/hL.

Fluid Milk Price

On August 12, 1996, the Milk Prices Review Commission (MPRC) increased the producer fluid milk price by $1.73/hL, from $63.57/hL to $65.30/hL basis 3.7034 kg/hL. On July 14, 1997, the fluid milk price was increased by $1.37/hL, from $65.30/hL to $66.67/hL. The Milk Prices Review Commission (MPRC) has the authority to set producer prices for fluid milk in Manitoba.

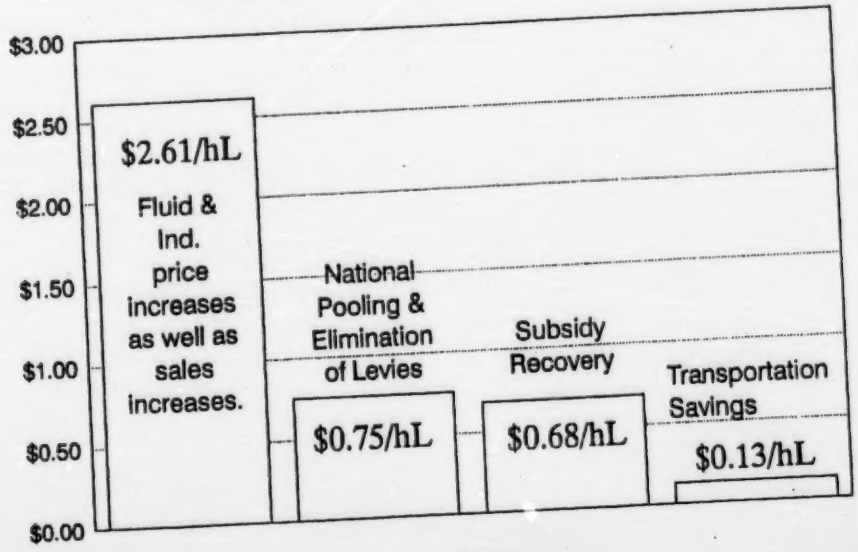
According to an agreement between the Western Milk Pool provinces, it was agreed to value fluid milk at the Alberta price. Milk Prices Review Commission (MPRC) is mandated to price according to a Cost of Production formula utilizing Manitoba data and could not comply with this agreement. They are currently in the process of reviewing the Cost of Production formula to change its focus from a market valuation of feed and replacements to a more cost of production driven formula.

1996/97 Net Pool Revenue Increase of $4.17/ hL

The 1996/97 dairy year saw producers net pool revenue increase by $4.17/ hL . This occurred due to four major reasons as displayed in the chart below.

Due to fluid and industrial price increases as well as sales increases throughout the year, $2.61/ hL was gained by producers. This dairy year saw the elimination of the levy system and the creation of the All Milk Pool Agreement, the Western Milk Pool Agreement along with the Special Class Pool Agreement. These agreements benefited Manitoba to the figure of $0.75/ hL. The consumer subsidy paid directly to producers was cut and added to the price of industrial milk for a recovery of $0.68/ hL. This is not new revenue. Manitoba Milk Producers has worked hard to promote efficient transportation of raw milk which saw a savings of $0.13/ hL .

Explanation of 1996/97 Net Revenue Increase of $4.17/hL



Changes for the 1996/97 Dairy Year

As a result of the pooling agreements, a number of changes occurred in the 1996/97 dairy year.

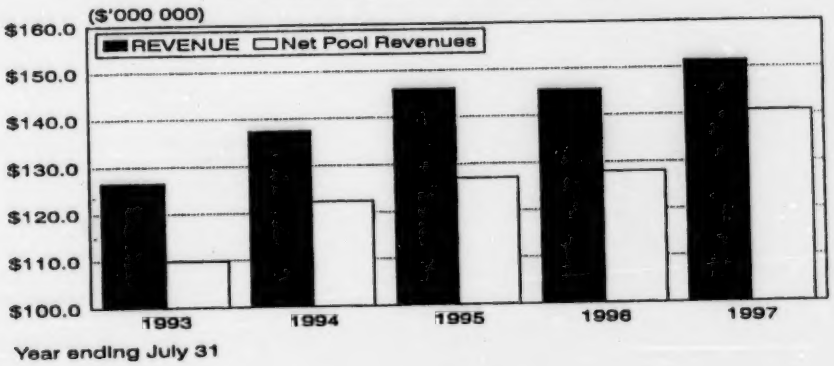
1. The National Classification System was adopted in Manitoba. This change harmonized Manitoba with the rest of the country and allowed for a consistent basis to bill processors.

2. On August 1, 1996, Manitoba Milk Producers commenced invoicing processors on the end use component basis to harmonize with the rest of Canada. End use component billing means the butterfat is tracked to where it is utilized and billed accordingly. Previously, the butterfat content was assumed to be the same in each billing class. For example, 2% milk is charged for 2% butterfat content while whipping cream is charged for its butterfat content of 35%.

3. The quota system was changed to a continuous quota system whereby there is no year-end. Producers can accumulate credits up to a limit of 25 days (20 days in 96/97) with no time limit as to their use. Producers are also paid for any over quota milk on the basis of the current world price. All levies were eliminated. Milk for export products is sold at competitive prices and included in the Special Class Pool.

4. Manitoba entered into a revenue pooling arrangement with the P6 (Manitoba, Ontario, Quebec, New Brunswick, Nova Scotia and Prince Edward Island) on August 1, 1996. The Western Milk Pool was initiated on March 1, 1997 with Manitoba pooling quota and revenue with Saskatchewan, Alberta and British Columbia. Some changes were made to the P6 to accomodate Manitoba being in both pools.

GROSS POOL vs. NET POOL REVENUES
Quota Years 1993 to 1997

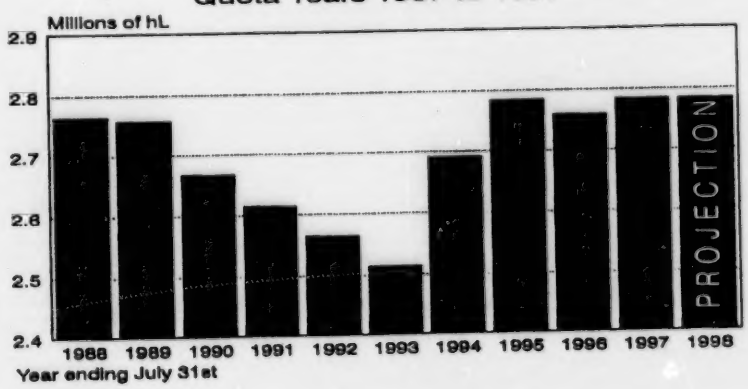


Milk Production

Manitoba Milk Producers marketed 278.3 million litres of milk during 1996/97 dairy year which represents an increase of 2.8 million litres.

At the same time the butterfat content decreased from 3.819kg/hL to 3.815kg/hL representing an increase in total butterfat production of 0.97%.

MANITOBA MILK PRODUCTION
Quota Years 1987 to 1997



1996 Skim Off

Manitoba's 1996 fluid skim off increased from 472,660 hL to 524,996 hL, a 11.07% increase over 1995. This is equivalent to 188,408 kilograms of butterfat. This is a greater increase than the Canadian fluid skim off which rose by 5.15%, or from 9,325,937 hL to 9,806,218 hL.

The growth in calendar 1996 skim off was due to three factors. First, the farm butterfat test rose by 0.4804kg/hL or from 3.77773 kg/hL to 3.82577 kg/hL. The second point is the mix of fluid products continues to see an increase in lower fat products. Standard and 2% milk declined by 6.09% and 2.16% respectively while 1% rose by 3.53% and skim milk increased by 0.54%. Chocolate milk sales increased by 4.33% with approximately 65% of those sales being 1% milk.

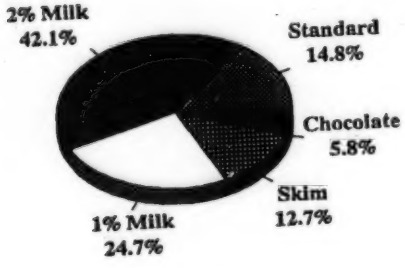
The third reason is the fluid product butterfat contents have again reduced. Standard milk butterfat content dropped from 3.32% to 3.25%, 2% milk dropped from 2.03% to 1.97%, 1% milk decreased from 1.04% to 1.01% and chocolate declined from 1.24% to 1.21%. A decline in the fluid milk butterfat content means more butterfat was skimmed off and sold into the industrial market. This means less industrial milk was needed to fill the butterfat requirements of industrial processors.

Due to Manitoba's pooling arrangement with the Western Milk Pool, our fluid skim off responsibility for 1997/98 dropped from 188,408 to 165,687 kilograms because it is shared among the four western provinces.

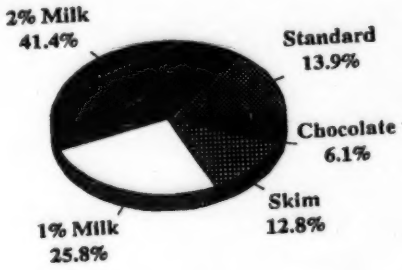
FLUID MILK UTILIZATION

Manitoba

1995/96 vs 1996/97



1995/96



1996/97

Milk Marketing to Processors

At year-end Manitoba Milk Producers marketed to twelve processing plants owned by eight processing companies. These consisted of three fluid milk plants and nine industrial milk plants.

Fluid milk plants receive milk on demand and consumed 114.7 million litres or 41.2% of total milk marketed. Industrial milk plants receive milk on the basis of traditional allocations set each year after skim off adjustments have amended the provincial market share quota. Milk in excess of the aggregated traditional allocations was marketed to highest classification. Industrial milk plants processed 163.7 million litres of milk in a wide range of dairy products. 63% of industrial milk was used to make cheese. All of Manitoba's milk is processed in Manitoba and is 100% value added. Processors purchased milk for export to Algeria, Mexico, Malaysia and Peru.

Manitoba Milk Producers

Monthly Pool Payment Summary
Dairy Year August 1996 to July 1997

Milk Class	Description	Litres	Butterfat Kgs	Protein Kgs	Other Solids Kgs	Total Values
1A	Fluid Milk	103,478,282	1,786,877.943	3,457,829.603	5,923,200.388	$56,373,487.14
1B	Fluid Creams	3,117,251	557,885.367	86,943.597	149,097.730	$4,446,904.20
1C	Flavoured Milk	8,056,899	128,436.678	268,914.739	460,709.359	$4,330,502.24
2	Ice Cream	6,101,942	779,341.484	183,104.792	309,991.574	$6,145,054.35
3A	Specialty Cheese	40,874,095	1,213,583.457	1,382,241.562	2,319,088.101	$19,512,523.66
3B	Cheddar Cheese	61,986,370	2,325,844.709	2,069,168.182	3,489,071.275	$31,863,690.18
4A	Butter/powder	29,328,249	3,073,871.475	906,576.251	1,526,812.879	$25,258,551.88
4B	Condensed Milk	0	0.000	0.000	0.000	$0.00
4C	New Products	0	0.000	0.000	0.000	$0.00
4D	Inventories	578,076	5,344.303	20,664.623	33,882.462	$218,026.98
5A	Further Processor-Cheese	8,944,078	279,739.779	301,049.347	505,638.478	$3,513,775.98
5B	Further Processor-Non Cheese	2,327,295	422,673.582	64,682.396	109,982.237	$2,222,013.69
5C	Confectionery products	25,255	9,234.356	548.227	900.315	$27,705.92
5D	Planned Structural Surplus	11,142,617	11,472.267	386,265.653	652,225.853	$2,012,076.52
5E	Plan C & Surplus Removal	1,630,062	16,104.412	54,236.052	94,632.765	$322,084.50
		277,590,471	**10,610,409.812**	**9,182,225.024**	**15,575,233.416**	**$156,246,397.24**
	Meter Shrink	719,304	7,691.064	47,534.994	21,509.412	
	Component Differential Cl 1A to 1C			71,368.198	42,238.991	
	Component Adjustments					$61,816.27
	MANUAL INPUTS:					$0.00
	Pool Interest Income					$116,542.75
	Interprovincial Sales Adjustment					($103,365.86)
	National Pool Adjustment(P4, P6, P9)					($4,982,973.04)
	Audit Adjustment					($31,764.41)
	TOTALS	278,309,775	10,618,100.876	9,301,128.216	15,638,981.819	**$151,306,652.95**

POOL PAYMENT DISTRIBUTION

Domestic Components		Distribution Weight	Domestic Market Pool Factors	Domestic Market Pool Revenues	Domestic Market Total Revenues
	Butterfat	10,265,307.636	**$5.30153**	$54,421,828.00	
	Protein	8,997,537.566	**$8.41528**	$75,716,827.92	
	O/Solids	15,122,114.109	**$1.25174**	$18,928,900.17	**$149,067,556.09**

World Market Components		Distribution Weight	World Market Pool Factors	World Market Pool Revenues	World Market Total Revenues
	Butterfat	352,792.240	**$1.68700**	$595,160.69	
	Protein	303,591.650	**$2.04668**	$621,353.47	
	O/Solids	516,869.710	**$1.97841**	$1,022,582.70	**$2,239,096.86**
				Total Revenues	**$151,306,652.95**

STATISTICS	TOTAL LITRES	BUTTERFAT KGS	PROTEIN KGS	O/SOLIDS KGS
COMPONENTS 1996/1997	278,309,775	10,618,099.876	9,301,129.216	15,638,983.819
COMPONENT AVERAGES		**3.81521**	**3.34201**	**5.61927**
Previous Year 95/96 Results	275,454,448	10,519,918.752	9,236,606.875	15,510,393.786
Previous Year Component Averages		**3.81911**	**3.35322**	**5.63084**

DAILY QUOTA SUMMARY

1996/97 Dairy Year:

Producers daily quota was increased by 1% August 1, 1996 in response to increased fluid sales. In addition to the quota increase, a 5% cover off was offered to producers for the period August 1, 1996 to January 31, 1997.

Daily Quota Issued as of July 31,1997	: 28,946.70 kg BF
Production 1996/97 Dairy Year	: 10,618,100.87 kg BF
Quota Utilization 1996/97	: 100.49%

1997/98 Dairy Year:

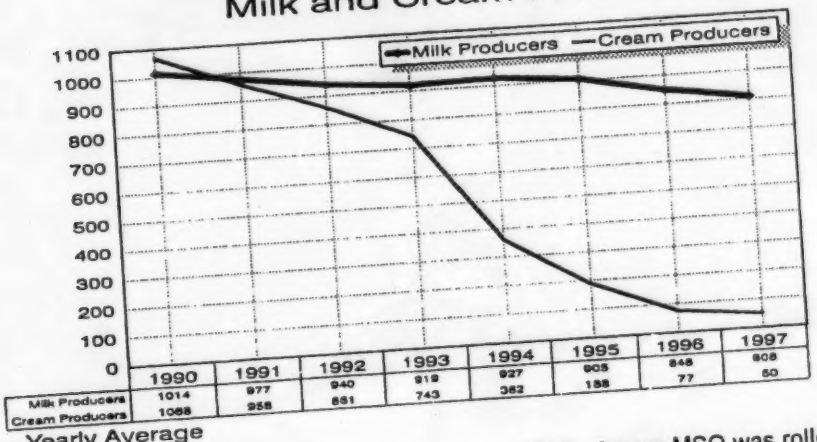
Producers daily quota was reduced by 2% on August 1, 1997 in response to increased skim off and increased import obligations under the World Trade Organization agreement. The cover off was again set at 5% for the period August 1 to November 30, 1997.

An optional export sleeve of 1.5% has been introduced for the period August 1, 1997 to January 31, 1998. The sleeve will be automatically added to any producers daily allotment and paid at $32.00/hL. prior to any production being paid at the World price.

Daily Quota Issued August 1, 1997: 28,367.77 kg BF

Number of Dairy Farms

Milk and Cream Producers



	1990	1991	1992	1993	1994	1995	1996	1997
Milk Producers	1014	977	940	919	927	905	848	808
Cream Producers	1068	958	881	743	382	188	77	50

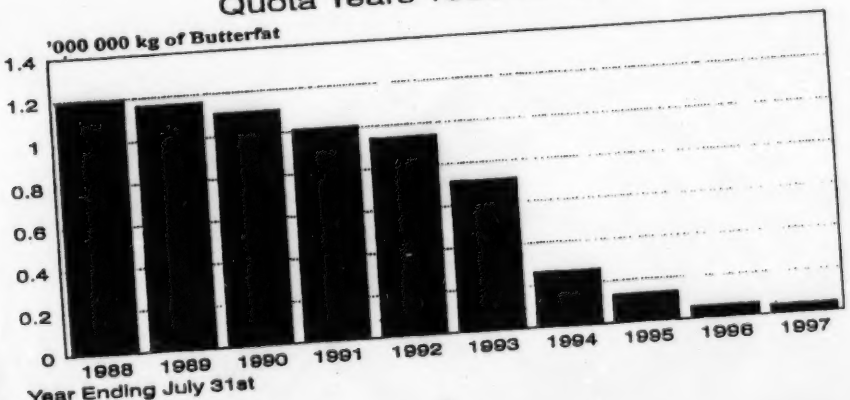
Yearly Average

Cream Quota Summary:

Farm separated cream production totalled 42,932 kilograms of butterfat for the dairy year ending July 31, 1997. Cream MSQ was rolled back by 3% for the 1997/98 dairy year. As of August 1, 1997 Manitoba has 42 registered cream producers holding 108.94 kg. of daily quota.

MANITOBA FARM SEPARATED CREAM PRODUCTION

Quota Years 1986 to 1997



Quota Exchange Summary:

Quota Exchange Clearing Prices

	1996/97 Quota Price By Month	1995/96 Quota Price Comparison
August	$9,310.00	$10,225.00
September	$8,492.00	$9,900.50
October	$7,500.00	$9,400.10
November	$8,000.00	$9,610.00
December	$8,900.00	$10,500.00
January	$9,600.00	$10,500.00
February	$9,500.00	$10,700.00
March	$9,690.00	$10,000.00
April	$9,353.00	$9,000.00
May	$9,050.00	$8,400.00
June	$9,501.85	$8,510.00
July	$10,000.00	$9,401.00

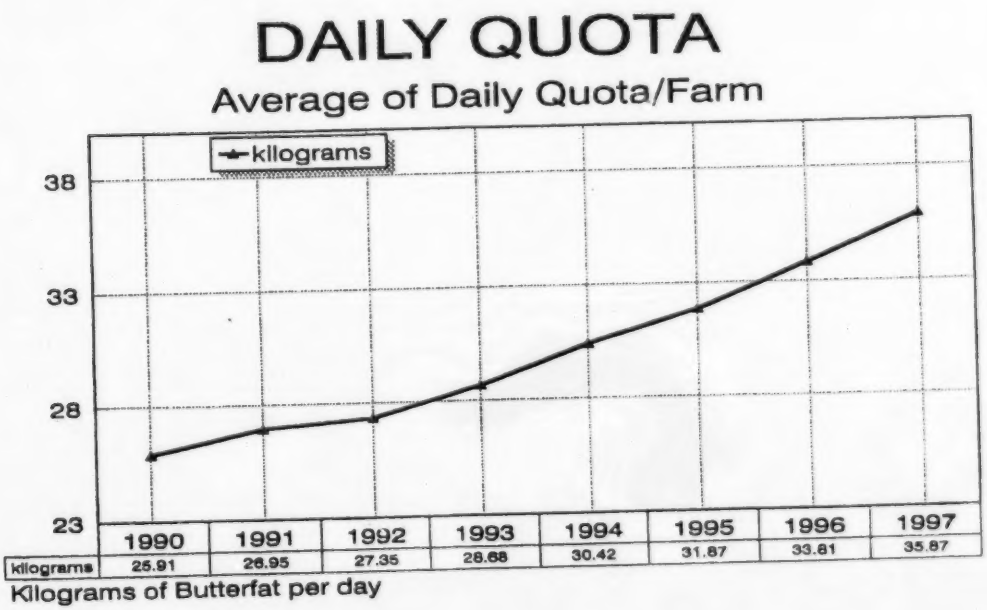
	Milk	Cream	Total
Total Quota Offered for Sale (kg.):	3,680.56	96.61	3,777.17
Total Quota Sold on the Exchange (kg.):	747.19	33.92	781.11

Summary of Quota Movement by District:

District #	Quota Purchased (kg)	Quota Sold (kg)	Net Change (kg)
1	19.58	74.99	-55.41
2	31.65	119.67	-88.02
3	160.79	126.59	+34.20
4	82.36	123.77	-41.41
5	105.44	146.30	-40.86
6	80.18	83.20	-3.02
7	81.10	90.84	-9.74
8	117.80	22.77	+95.03
9	113.57	80.04	+33.53

Summary of Quota Transfers:

Type of Transfer	# of Applications Approved	kg of Quota Transferred	% of Total Quota
Complete Dairy Farm Sale	11	488.76	1.69 %
Complete Family Transfers	8	218.67	0.76 %
Farm Incorporations	6	280.60	0.97 %
Partial In-Family Transfers	4	25.75	0.09 %
Totals	**29**	**1,013.7**	**3.5 %**
Quota Exchange		**781.11**	**2.69 %**



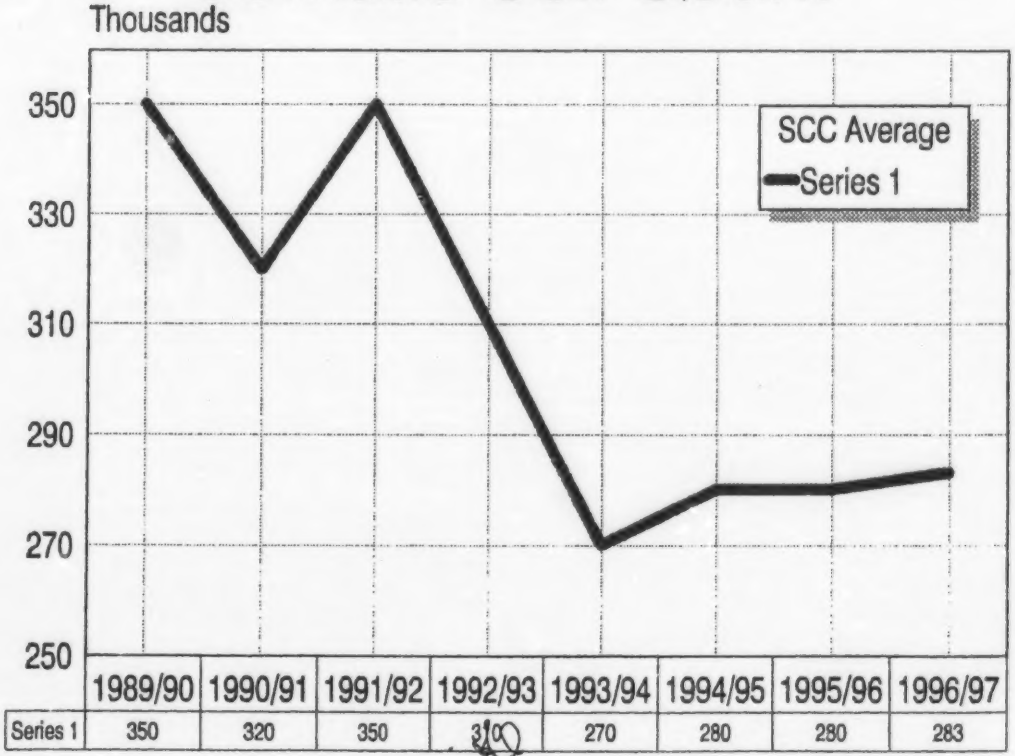
Milk Quality Premium Program:

The milk quality premium program paid out $139,396.34 to eligible producers from January to July of 1997. The quality premium program pays producers at two levels. A $0.25/hL premium is paid to producers with a Somatic Cell Count of 150,000 or less and Plate Loop Count of 15,000 or less. A $0.10/hL premium is paid to producers with a Somatic Cell Count of 300,000 or less, and a Plate Loop Count of 30,000 or less. The producer must also be free of any quality infractions for Antibiotic, Water, or Premises, to be eligible for a premium on all litres of monthly production. Premium payments are presently funded from the penalty infractions collected from producers for quality infractions.

Quality Group:

The implementation of tougher milk quality standards and penalties on August 1, 1996 has resulted in an increase in the number of producers looking for assistance on milk quality problems. The Quality Group has been active throughout the 1996/97 dairy year in facilitating the changes to milking technique, milking equipment, herd health management, and building environments, that have been necessary in a number of herds throughout the province. The quality group is made up of staff from Manitoba Milk Producers and Manitoba Agriculture, who work closely with local Veterinarians, Equipment Dealers, and Nutritionists, to bring about the improvements that are necessary in a problem herd.

Manitoba Average Annual Somatic Cell Count



	1989/90	1990/91	1991/92	1992/93	1993/94	1994/95	1995/96	1996/97
Series 1	350	320	350	310	270	280	280	283

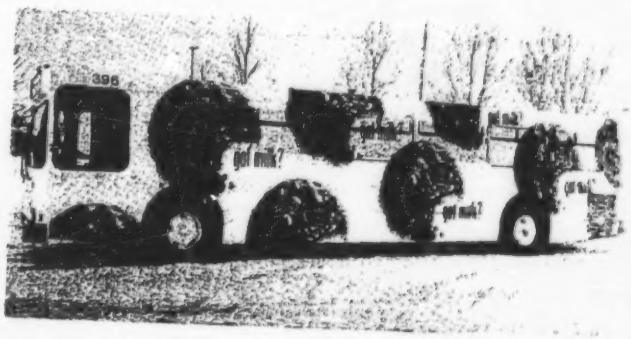
Fluid Milk

got milk? continued to capture the attention of Manitoba consumers for another year. The campaign focused on both the deprivation message of not running out of milk and the food co-dependency message of milk being a natural with certain foods. Strategy included addressing the adult target market in addition to the traditional market of young adults and teens; blending advertising with in-store promotion; and maintaining partnerships with dairies and co-dependent food companies. All mediums of advertising were included over the year including television, outdoor, radio, in-store and print.

Several television spots featuring milk with cereal or cookies were aired throughout the year, including Birthday Party, Full Body Cast, Isolation, and Oreo Kane. The spots ran every week from September to May throughout all of Manitoba. These heavy weight levels helped to significantly increase consumer awareness of the *got milk?* television campaign over the previous year. Research studies among Manitobans show that in 1997, 61 percent of those surveyed could recall some portion of the *got milk?* advertising without any prompting compared to 45 percent in 1996. When prompted, 95 percent recalled they had seen the campaign which was relatively unchanged from 1996. These levels fall within or exceed the standard of excellence for television commercials. The "don't run out of milk" message was further developed to a "milk is good with different foods" message; intended to increase the number of occasions that milk is consumed during the day. In addition, *got milk?* made gains as a beverage that is for people your age with all age groups showing growth in awareness levels. Research also demonstrated that *got milk?* continues to be well liked with no signs of wear-out.

Outdoor advertising was strong throughout the year with billboards strategically located close to grocery and convenience stores where milk is sold. Four different images, including cookies and peanut butter sandwiches blanketed Winnipeg and major markets reminding people to pick up milk on their way home.

The *got milk?* bus, completely covered in chocolate chip cookies, was the first vinyl wrapped bus to hit the streets of Winnipeg.



The Town Without Milk radio campaign continued to blast the airwaves in Winnipeg and Brandon depicting amusing situations where milk was not available to drink with cookies, brownies or cereal. In grocery stores where the majority of purchasing decisions are made, black and white *got milk?* signs were posted by co-dependent foods reminding consumers to buy milk as they shopped throughout the store.

Back by popular demand, James Barber was highlighted in the 1997 Milk Calendar. Manitoba Milk Producers partnered with the Winnipeg Free Press to promote the calendar through a two week contest with prizes ranging from $100 to $1000 plus one year supply of milk.

The response to the contest was outstanding with over 50,000 entries being returned. In total, over 200,000 calendars were distributed throughout Manitoba.

Manitoba Milk Producers continued to work with processors, retailers, and brand partners to deliver fluid milk promotions through grocery stores across Manitoba. The *got chocolate milk?* promotion returned for another year in October and included a coupon to save money on chocolate milk through participating processors, nutrition messages indicating why chocolate milk is as healthy as white milk, and a new addition of a contest element. The promotion was a success with chocolate milk sales in October increasing by 10% over the same month of the previous year.

In January, Manitoba Milk Producers partnered with General Mills Canada Inc. to distribute in-store coupons where consumers could save $2.00 off milk when they purchase 2 boxes of cereal. In addition, a premium offer was incorporated allowing consumers to purchase *got milk?* T-shirts and caps at a special promotional price. Results were very positive and close to 1,000 requests were received for *got milk?* items.

Cookies and milk were on the menu for spring when Manitoba Milk Producers partnered with Christie Brown & Company to offer a coupon savings off cookies and milk. The offer was combined with a contest to win a Caribbean Cruise if you guess what milk and Oreo have in common with celebrities. The promotion was supported heavily in grocery stores with signage and audio units - the first to be used in Canadian grocery stores! Other media support included two radio spots which were aired over 5 radio stations in Winnipeg and Brandon.

Manitoba Milk Producers partnered with Dairy Farmers of Canada as an official sponsor for Team Manitoba as they competed at the Canada Games from August 9 - 23 in Brandon. The sponsorship was multi-faceted and included advertising, promotion and a special event. Through another partnership with the Winnipeg Free Press, Manitoba Milk Producers developed three nutrition related ads using Team Manitoba Athletes. To reinforce the nutrition message, a contest was specifically designed to ask milk & nutrition related questions for a chance to win prizes consisting of a Caribbean Cruise and limited edition sweatshirts and polo shirts. The campaign received excellent coverage in the newspaper for 15 days straight. Over 3,500 contest entries and over 2,500 well wishes to Team Manitoba were received.

In addition, three nutrition related shelf talkers, featuring Team Manitoba Athletes and highlighting Manitoba Milk Producers as Official Sponsor, were posted in grocery stores for 4 weeks. A special event entitled Team Manitoba Pep Rally & Dairy Games was held in July with over 600 athletes, coaches, staff, parents, friends and fans in attendance. The purpose of the event was to help send Team Manitoba off to the Canada Games.

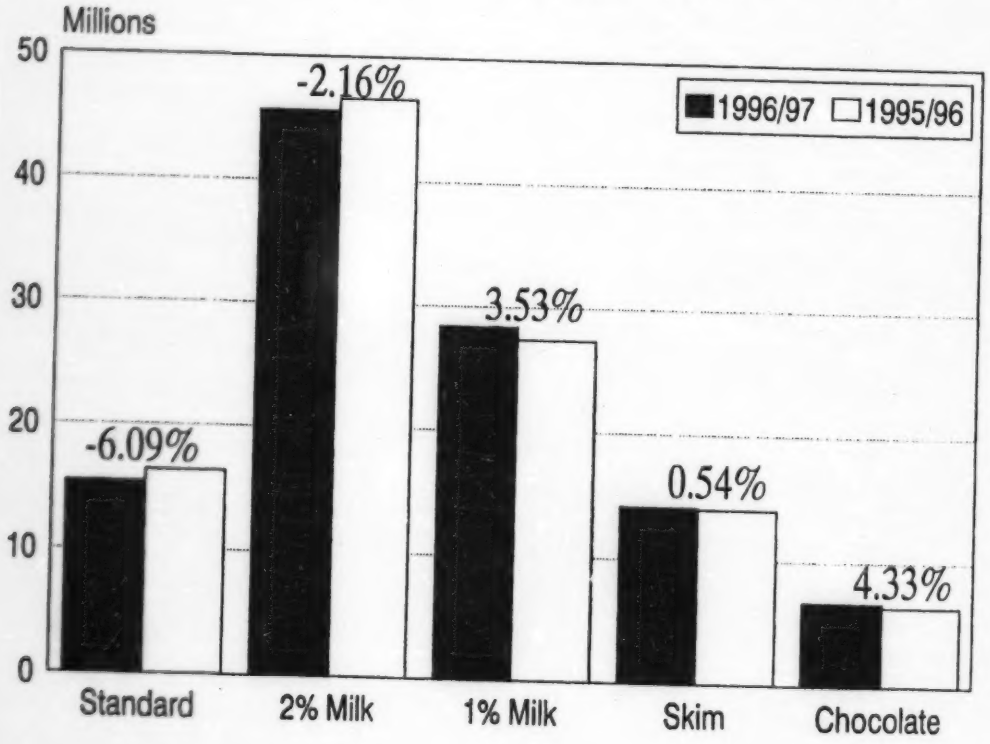
Activities included a parade of athletes, lighting of the official torch, free sampling of milk products including cheese, milk and ice cream and the Dairy Games consisting of the Milk Relay, Cheese Discus, and Milk Jug Hurdle.

The event received excellent media coverage from all Winnipeg T.V. stations and in addition, Manitoba Milk Producers was highlighted as being the sponsor through newspaper, banners, team signs, logos on T-shirts and the team official uniform. The sponsorship was further promoted through a partnership with a local radio station, 92 Citi FM, over a two week period.

Offsetting the 1995/96 fluid milk sales increase of 3.63% presented a challenge for the 1996/97 dairy year; consequently, sales resulted in a decrease of 1.02%. Compounded fluid sales over the past two dairy years show a net increase of +2.61%, indicating that overall the *got milk?* campaign has positively affected fluid milk sales since it was introduced to Manitoba in 1995.

MANITOBA FLUID SALES

1996/97 vs. 1995/96 Dairy Year



Cream

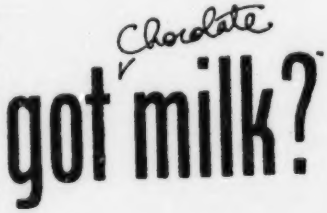
Adapted from Dairy Farmers of Ontario, Manitoba Milk Producers continued to roll out the Real Cream program into the Manitoba market. Christmas was highlighted in grocery stores with recipe brochures and savings coupons off cream from participating processors. In addition, recipe brochures were incorporated into Canadian Living and Readers Digest magazines. The summer berry season also featured whipping cream through recipe brochures that were distributed at grocery stores and U-Pick Berry Farms in Manitoba.

SCHOOL MILK PROGRAM / LOGO MARKETING

School Milk Program

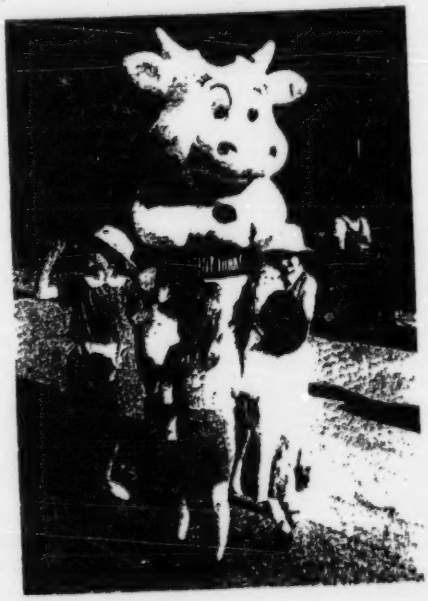
The 1997-98 School Milk Program demonstrated a definite commitment from the Manitoba School System with a record registration of 620 schools. This represents a 7% increase in the number of schools over the previous year. The program continues to operate by providing students with chances to win promotional prizes simply by drinking milk at school. The enthusiasm and support from school administrators, teachers and parent volunteers, for the day to day operation of the Program, also plays a very important role in the continued success of the Program. Evaluations showed that schools find the Program effective at increasing milk consumption and at promoting its importance as part of a healthy diet.

Once again, the *got chocolate milk?* promotion was a very popular complementary program at the JR/SR High level with 125 participating schools. The school promotion was an adaptation of the *got chocolate milk?* promotion held at retail level in the fall thereby, allowing us to capitalize on the initial investment and to build on the consumer awareness previously developed. The promotion included a contest with an educational brochure (dispelling myths surrounding chocolate milk) and free milk give-aways.



Due to last year's success, dairies agreed to partner with us again, by donating an average of 100 free chocolate milk per participating school. This successful partnership with the dairies allowed us to deliver an exciting, high quality promotion that appealed to our target group.

This year, Manitoba Milk Producers' Mascot, "Winnie-the-Moo", made over 50 appearances at various schools and community sponsored events, allowing us to increase milk visibility in a fun and interactive way. This year, Winnie-the-Moo's presence did not go unnoticed at events such as the High School Basketball Championship, the United Way Campaign kick off, the Children's Festival and the Team Manitoba Pep Rally.



Logo Marketing

Since the adoption of the new *got milk?* Logo Marketing program, producers and consumers have benefited from the popular *got milk?* merchandise at a minimal cost. In addition, advertising the program through the Milkline helped us keep our flyer production and distribution costs minimal. This new concept has allowed us to reinforce the *got milk?* message and to work synergistically with all other levels of advertising to build milk awareness.

Again this year, the School Milk and Logo Marketing Programs have proven to be important parts of the overall marketing plan by experiencing success and generating constant demand. We strongly feel that both programs have allowed us to further increase awareness and consequently the consumption of milk in Manitoba.

NUTRITION EDUCATION

Milk's Nutrition Education programs continued to find new audiences and maintain current users during the 1996/97 dairy year.

Our programs with childcare workers progressed at a steady pace this year. The workshop, features a very clear milk message: higher fat foods (which include whole milk) are acceptable choices; and children of this age should consume at least 2 cups of milk each day! Our activity oriented workshop highlighting these 2 items has reached over 1200 Manitoba childcare workers to date.

With the move to home care in the community, demand for our Continuing Care Provider inservice has increased this year. This program features milk as part of healthy shopping, food preparation, and eating for individuals and families of all ages and need.

Our participation in the Manitoba Education Curriculum committee will help ensure that our school workshops evolve to meet the needs of Manitoba schools. As well, our involvement in the generation of a Child & Youth Secretariat discussion paper on the future of childrens' nutrition programs in Manitoba has maintained recognition of our role as the provider of teacher training in the province.

Milk's commitment to the Osteoporosis Society Chapter continues. We are pleased to report that our resources are used almost exclusively to deliver the calcium message. Over 70 presentations were made to consumers and health professionals this year.

Work with Manitoba Agriculture continues. The exposure of milk recipes in "Great Tastes of Manitoba", a television cooking show, has increased dramatically as the show moved to CKY which reaches 99% of the province. Phone response to our segments indicates viewership continues to increase.

We partnered with the Heart and Stroke Foundation of Manitoba again this year to develop a set of "Heart Smart" recipes that featured butter! A nutrition forum organized in partnership with Dietitians of Canada was a great success this year - especially the keynote address given by Helen Bishop MacDonald from Dairy Farmers of Canada.

A partnership with the Manitoba Dental Association resulted in over 20,000 of our snack brochures, which feature milk and cheese, being distributed in dental offices throughout the province.

Pat McCarthy-Briggs and Lori Rudolph-Crawford's regular involvement in key nutrition committees and programs throughout the province maintains an ongoing Milk presence in Manitoba health programs. We look forward to furthering this year's work and increased opportunities for our milk and calcium message in the 1997/98 dairy year.

Highlights of last year's milk transportation picture were supplied mostly by the weather. An early winter with more than a fair share of snow storms and a "blizzard of the century" in the southern and eastern parts of the province on April 5th and 6th, created some tricky pick up situations. Just as we thought the worst of the year was over, along came the "flood of the century" in the Red River valley. This caused sixteen producers to relocate for various periods of time, while access to other farms made providing milk pick-up service more difficult or impossible. Through all of these calamities a spirit of cooperation between producers and transporters helped to overcome most of the obstacles encountered.

The reduction of the "profit factor" in the transporter rate formula by one-half, combined with lower mileage and fewer routes had the effect of reducing overall transportation costs by 4.8% over 1995/96. Negotiations with transporters in the summer of 1997 resulted in more revisions to the payment structure being implemented August 1, 1997. The total reduction in 1997/98 is projected to be about 3%.

The Manitoba Milk Producers also undertook to making as many producer premises as feasible semi-trailer accessible in as short a time as possible. By doing so, larger more efficient transport units can be utilized to achieve more cost effective milk movements. The Manitoba Milk Producers also continue to encourage transporter route rationalization and route direction, to lessen costs and improve transportation service to producers.

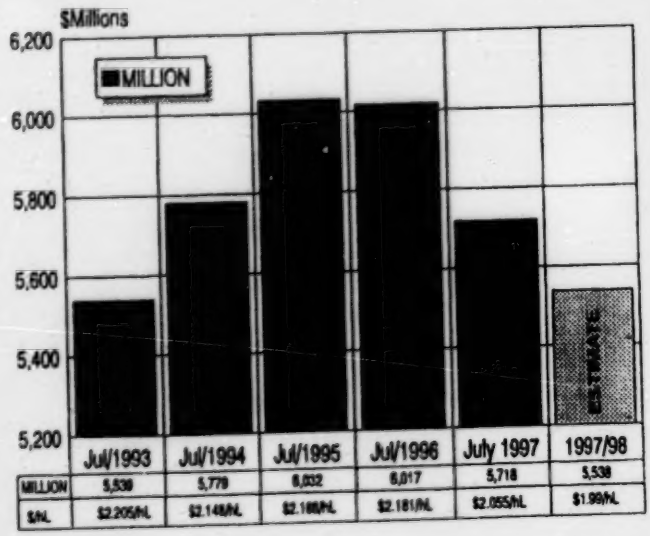
During 1996/97 the volume of milk transported increased by 1% with average costs per hectolitre decreasing from $2.181 to $2.049; or just over six percent. The variances from manifest to meter declined by about 1.5%; another area where more monitoring and earlier action is having a beneficial effect.

Facts & Figures

No. of	1990/91	1991/92	1992/93	1993/94	1994/95	1995/96	1996/97
Haulers	28	24	20	20	19	19	18
Tandems	44	39	36	34	33	28	27
Trailers	5	6	6	7	8	11	12
Routes	112	104	101	105	107	100	98
Estimated Annual distances (km)	3810000	3795000	3732000	3731000	3823000	3737000	3682000
No. of hL hauled per km	0.686	0.675	0.673	0.684	0.686	0.737	0.758

During the current year, Manitoba Milk Producers will continue to encourage large unit access to more producer locations, and will focus on areas where less attention has been directed in previous years. Their goals are to improve bulk milk transportation by improving service to producers, and to continue lowering costs wherever possible.

Total Annual Transportation Costs



Dairy Years Ending July 31.

Hutchings May & Co.
Chartered Accountants

DFK INTERNATIONAL
Member of DFK International and DFK Accountancy Group Inc. (Canada) with affiliated offices worldwide.

Partners:
John E. Hutchings, M.A. (Oxon), C.A.
Richard F. Hutchings, B.A., C.A.
Larry H. Frostiak, B.Sc., B.Ed., C.A.
Kenneth T. Leslie, B.Comm (Hons), C.A.
Lawrence K. Eiler, B.A., C.A.
Myles L. Pouteau, B.Comm (Hons), C.A.
Associate:
Shirley Hurst, B.Comm(Hons), C.A.

To the Registered Producers of
Manitoba Milk Producers

We have audited the consolidated statement of financial position of Manitoba Milk Producers as at July 31, 1997, and statements of operations of milk pool fund, general fund, transportation fund, quota exchange, MFC Testing and Research Inc. and consolidated statement of changes in cash position for the year then ended. These financial statements are the responsibility of the Corporation's management. Our responsibility is to express an opinion on these financial statements based on our audit.

We conducted our audit in accordance with generally accepted auditing standards. These standards require that we plan and perform an audit to obtain reasonable assurance whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation.

In our opinion, these consolidated financial statements present fairly in all material respects, the financial position of the Corporation as at July 31, 1997, and the results of its operations and the changes in its cash position for the year then ended in accordance with generally accepted accounting principles.

Hutchings May & Co.

Winnipeg, Manitoba
September 17, 1997

Chartered Accountants

WINNIPEG 50 Stafford Street Winnipeg, Manitoba, Canada R3M 2V7 Tel. 204-284-7957 Fax 204-453-1243
Internet: http://www.HutchingsMay.com/homepage/ E mail: confidential@HutchingsMay.com

CONSOLIDATED STATEMENT OF FINANCIAL POSITION
AS AT JULY 31, 1997

Exhibit A

	1997	1996
CURRENT ASSETS:		
Cash	$ 1,484,221	$ 3,792,414
Accounts receivable	12,914,332	13,008,406
Prepaid expenses	81,554	84,570
Total current assets	14,480,107	16,885,390
CURRENT LIABILITIES:		
Producer cheques - unissued	11,711,260	10,767,150
Accounts payable and accrued liabilities	1,411,012	4,866,759
Total current liabilities	13,122,272	15,633,909
WORKING CAPITAL	1,357,835	1,251,481
PROPERTY, BUILDING AND EQUIPMENT:		
Cost	2,077,448	2,043,408
Less accumulated amortization	(1,146,653)	(1,027,255)
Net property, building and equipment	930,795	1,016,153
REGISTERED PRODUCERS' EQUITY AND CAPITAL EMPLOYED	**$ 2,288,630**	**$ 2,267,634**
Represented by the following:		
Corporation funds		
General (Ex.C)	$ 2,498,953	$ 2,268,983
Transportation (Ex.D)	-	-
Quota Exchange (Ex.E)	436,115	597,280
Subsidiary Company - MFC Testing and Research Inc. (Ex.F)	(646,438)	(598,629)
	$ 2,288,630	**$ 2,267,634**

Approved by the Members

Craig Finnie
Craig Finnie

Neil Van Ryssel
Neil Van Ryssel

STATEMENT OF MILK POOL FUND OPERATIONS
FOR THE YEAR ENDED JULY 31, 1997

Exhibit B

	1997	1996
INCOME:		
Milk sold to processors	$ 156,211,354	$ 145,558,171
Investment interest	116,543	235,396
Total income	156,327,897	145,793,567
DISTRIBUTION:		
Payments to Manitoba producers	140,702,104	127,926,594
National pool equalization payments	4,982,974	-
Deductions for Corporation controlled funds:		
General (Ex.C)	4,230,193	4,186,794
Transportation (Ex.D)	5,718,158	6,017,555
Deductions determined by others:		
Canadian Dairy Commission	-	7,098,360
Manitoba Milk Recording Corporation	83,491	82,635
Keystone Agricultural Producers	68,500	52,700
Other deductions:		
Quality penalty levy (Ex.C)	258,395	171,021
Food Bank donations	89,271	65,097
MFC Testing and Research Inc. (Ex. F)	194,811	192,811
Total distribution	156,327,897	145,793,567
UNDISTRIBUTED INCOME FOR THE YEAR	-	-
APPROPRIATION TO GENERAL FUNDS	-	-
UNDISTRIBUTED INCOME AT BEGINNING AND END OF THE YEAR	$ -	$ -
VOLUME OF MILK (In thousand litres)	278,310	275,454

STATEMENT OF GENERAL FUND OPERATIONS
FOR THE YEAR ENDED JULY 31, 1997

Exhibit C

	1997	1996
INCOME:		
Deductions (Ex.B)	$ 4,230,193	$ 4,186,794
Milk producers	258,395	171,021
Quality penalties	129	3,873
Cream producers	123,697	239,610
Interest	4,612,414	4,601,298
EXPENSE:		
Amortization	52,262	52,198
Antibiotic milk losses	75,816	77,093
Communication	87,168	87,176
Industrial interest allocated to milk pool	116,543	235,396
Meetings and seminars	79,462	61,653
Members (Note 4)	291,534	314,485
Memberships and grants	90,551	111,369
Milk sample costs	62,082	65,080
Northern producer payments	-	18,090
Occupancy	69,109	73,459
Office supplies	71,370	73,462
Professional fees	117,271	158,981
Quality premiums	150,381	-
Salaries and benefits	778,382	772,200
Staff travel	71,797	81,242
Other	39,790	40,842
Media advertising	1,203,504	1,205,971
Dairy Farmers of Canada	1,179,015	1,114,732
Provincial	124,255	145,811
Promotional materials	64,165	68,861
Special event sponsorship	(35,989)	(56,603)
Expense recovery	4,688,468	4,701,498
NET INCOME (LOSS) FOR THE YEAR	(76,054)	(100,200)
RETAINED INCOME AT BEGINNING OF THE YEAR	2,268,983	2,369,183
APPROPRIATION FROM QUOTA EXCHANGE	306,024	-
RETAINED INCOME AT END OF THE YEAR	$ 2,498,953	$ 2,268,983

STATEMENT OF TRANSPORTATION FUND OPERATIONS
FOR THE YEAR ENDED JULY 31, 1997

Exhibit D

	1997	1996
INCOME:		
Deductions (Ex.B)	$ 5,718,158	$ 6,017,555
EXPENSE:		
Transporter payments:		
Assigned plant deliveries	5,565,749	5,885,020
Diversions	54,701	38,035
Salaries and benefits	97,708	94,500
	5,718,158	6,017,555
NET INCOME FOR THE YEAR	-	-
RETAINED INCOME AT BEGINNING OF THE YEAR	-	-
RETAINED INCOME AT END OF THE YEAR	$ -	$ -

STATEMENT OF QUOTA EXCHANGE OPERATIONS
FOR THE YEAR ENDED JULY 31, 1997

Exhibit E

		1997		1996
QUOTA EXCHANGED:				
Quota transfers to successful bidders	$	7,286,310	$	13,104,658
Quota transfers from successful offerors		7,144,065		12,844,018
Quota exchange result excess(deficiency)		142,245		260,640
INCOME:				
Interest earned		2,614		10,911
		144,859		271,551
BALANCE AT BEGINNING OF THE YEAR		597,280		325,729
APPROPRIATION TO GENERAL FUND		(306,024)		-
BALANCE AT END OF THE YEAR	$	436,115	$	597,280

The Corporation administers a monthly quota exchange to facilitate the orderly transfer of quota between producers.

STATEMENT OF MFC TESTING & RESEARCH INC. OPERATIONS
FOR THE YEAR ENDED JULY 31, 1997

Exhibit F

	1997	1996
INCOME:		
Component testing fees -	$ 194,811	$ 192,811
Deductions (Ex.B)	151,432	200,913
Milk recording program	42,801	46,078
Processor - proportionate sample fees	8,273	5,261
Other income	397,317	445,063
EXPENSE:		
Amortization	67,137	85,607
Board members' per diems and travel (Note 4)	3,234	3,054
Courier service	22,793	26,278
Data processing	1,760	2,562
Insurance	11,047	11,417
Interest (Note 1C)	9,390	20,991
Laboratory accreditation	3,761	3,670
Laboratory supplies	31,189	30,092
Maintenance	12,004	14,147
Occupancy (Note 1C)	24,924	24,924
Office supplies	1,562	318
Other	3,023	3,049
Professional fees	15,835	16,365
Salaries and benefits	236,913	241,653
Staff travel	78	113
Staff training	476	137
	445,126	484,377
(LOSS) FOR THE YEAR	(47,809)	(39,314)
(DEFICIT) AT BEGINNING OF THE YEAR	(598,629)	(559,315)
(DEFICIT) AT END OF THE YEAR	$ (646,438)	$ (598,629)

CONSOLIDATED STATEMENT OF CHANGES IN CASH POSITION
FOR THE YEAR ENDED JULY 31, 1997

Exhibit G

	1997	1996
OPERATING ACTIVITIES:		
Net income(loss) of funds -		
General (Ex.C)	$ (76,054)	$ (100,200)
Transportation (Ex.D)	-	-
Milk Pool (Ex.B)	-	-
	(76,054)	(100,200)
Quota Exchange (Ex.E)	144,859	271,551
(Loss) of subsidiary -		
MFC Testing and Research Inc.(Ex.F)	(47,809)	(39,314)
	20,996	132,037
Non-cash items included in above -		
Amortization	119,399	137,805
	140,395	269,842
INVESTING ACTIVITIES:		
Purchase of property, building and equipment	(34,040)	(44,041)
	(34,040)	(44,041)
FINANCING ACTIVITIES:	-	-
INCREASE (DECREASE) IN WORKING CAPITAL POSITION FOR THE YEAR	106,355	225,801
CASH PROVIDED BY (USED IN) OPERATION OF NON-CASH WORKING CAPITAL COMPONENTS	(2,414,548)	1,137,927
INCREASE (DECREASE) IN CASH POSITION FOR THE YEAR	(2,308,193)	1,363,728
CASH POSITION AT BEGINNING OF THE YEAR	3,792,414	2,428,686
CASH POSITION AT END OF THE YEAR	$ 1,484,221	$ 3,792,414

( ) denotes use of cash

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS
JULY 31, 1997

1. SUMMARY OF ACTIVITIES AND SIGNIFICANT ACCOUNTING POLICIES:

Manitoba Milk Producers is a body corporate established under The Natural Products Marketing Act of the Province of Manitoba in 1974. The Corporation is responsible for the control and regulation of the marketing of milk in the province.

(a) MILK POOL FUND

Selling prices - The value of milk sold to processors is determined by its final product use. The Corporation sets the prices charged to processors except for Class I milk which is set by the Manitoba Milk Prices Review Commission. For purposes of accountability to producers the Corporation credits income from processor sales to a milk pool fund.

Costs of sales - Commencing in 1997 the Corporation participates in interprovincial arrangements with eight other provinces and the Canadian Dairy Commission in order to share milk sale revenues equally among Canadian milk producers. The resulting share of national revenues is paid to the individual Manitoba producers based on the quality and quantity of milk shipped.

The operation of the milk pool is accounted for in Exhibit B.

(b) PRODUCER DEDUCTION FUNDS

Operating Expenses - The Corporation is authorized through provincial statute to deduct fees from producer milk pool payments to cover operating expenses. Such deductions are accounted for separately in Exhibits C, D, and F.

(c) BASIS OF CONSOLIDATION

The Corporation and its wholly owned subsidiary MFC Testing and Research Inc. are considered to be one economic entity for accounting purposes. Accordingly, these financial statements are presented on a consolidated basis. However certain transactions between the Corporation general fund and the subsidiary cannot be eliminated in the respective statements of operations because the Corporation, by government regulation, follows the fund basis of accounting. The resulting related party transactions not eliminated on consolidation are as follows:

	1997	1996
Interest	$ 9,390	$20,991
Occupancy	24,924	24,924
	$34,314	$45,915

(d) **PROPERTY, BUILDING, EQUIPMENT AND RELATED AMORTIZATION**

Property, building and equipment are stated at cost. Amortization is provided for on the straight-line basis over an estimated life of five years for office equipment, seven years for laboratory equipment and thirty years for the building.

(e) **INCOME TAXES**

The Corporation's subsidiary company is a taxable Canadian corporation accounting for income taxes under the tax allocation method. The subsidiary has incurred losses which are not certain of utilization. Accordingly the tax reductions that may result from the application of these losses have not been recognized in the accounts as explained in Note 6.

2. **COMMITMENTS:**

Manitoba entered into an agreement with five other provinces to establish a national milk pooling arrangement for all milk revenues commencing August 1, 1996. As a condition of becoming a partner in the arrangement the Corporation agreed to pay to the other partners a net exchange consideration of $1.8 million. This agreement was altered through negotiations with the other parties whereby the cost to the Corporation was reduced to $ 122,616 from $ 2,587,500. During 1997 the Corporation paid $ 37,466 and received $ 716,744 from other provinces. These payments are included in the 1997 national pool equalization payments in Exhibit B. At July 31, 1997 the Corporation owed $ 85,150 to other provinces payable in the period August 1, 1997 to 1999.

3. **PENSION PLAN:**

Employees of the Corporation participate in the Manitoba Civil Service Superannuation Board pension plan which is a defined benefit plan.
Employees of MFC Testing and Research Inc. participate in a defined contribution plan administered by a Canadian insurance company.
The Corporation participates in both plans on a defined contribution basis whereby it contributes to the plan a fixed amount equal to the amount contributed by the employees.

4. ELECTED MEMBERS PER DIEM AND TRAVEL EXPENSES:

Members are paid a per diem of $175 ($165 - 1996) and the Chairman $217 ($207 - 1996) for time spent at meetings or on business matters of the Corporation. In the following information the Chairman's per diem includes an annual stipend of $20,000 and the Vice-Chairman's per diem an annual stipend of $10,000.

District		Per Diem	Expenses
#1	Russell McKague	$ 12,660	$ 7,572
#2	Hugh Jameson	11,965	5,390
#3	Craig Finnie	13,098	6,171
#4	Maurice Delichte	12,314	6,889
#5	William Swan	14,725	6,726
#6	Neil Van Ryssel (Chairman)	65,099	29,288
#7	A. Ens	3,470	1,855
#7	K. Leppky (Vice Chairman)	22,581	23,778
#8	Ray Pelletier	14,306	9,480
#9	D. Wiens	11,110	3,405
#9	Ken Leppky (Vice Chairman)	8,346	4,540
1997		$ 189,674	$105,094
1996		$ 192,572	$121,913

5. PROPERTY, BUILDING AND EQUIPMENT:

	Cost	Accumulated amortization	Amortization rate
Land	$ 104,108	$ -	-
Building	839,526	228,083	30 years
Equipment			
- laboratory	596,000	450,692	7 years
- other	537,814	467,878	5 years
	$2,077,448	$ 1,146,653	

6. INCOME TAXES:

Manitoba Milk Producers is an agricultural organization whose income is not payable to or otherwise available for the personal benefit of any registered producer. Accordingly, the net income of the Corporation is exempt from income taxes. MFC Testing and Research Inc. is a taxable Canadian corporation. The potential income tax benefits associated with its accumulated operating losses of $646,438 are not recognized in the accounts because of the uncertainty of utilization. The losses are available to reduce taxable income of future years but their availability will expire after 1998.

7. 1996 COMPARATIVE FIGURES:

Certain of the 1996 comparative figures have been reclassified to conform with the 1997 classification of financial information. It should be noted that the producer deductions of $ 7,098,360 made on behalf of the Canadian Dairy Commission in 1996 were replaced in 1997 by the national pool equalization payments of $ 4,982,974.